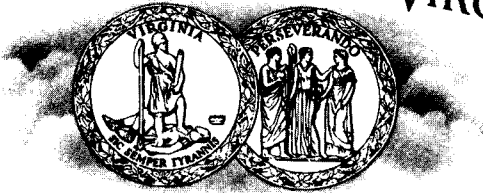


EXAMINATION REPORT
of
UNITED LEGAL BENEFITS OF VIRGINIA, INC.
Lutherville, Maryland
as of
December 31, 2007

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

ALFRED W. GROSS
COMMISSIONER OF INSURANCE
STATE CORPORATION COMMISSION
BUREAU OF INSURANCE

COMMONWEALTH OF VIRGINIA



P.O. BOX 1157
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I, Alfred W. Gross, Commissioner of Insurance of the Commonwealth of Virginia, do hereby certify that the annexed copy of the Examination Report of United Legal Benefits of Virginia, Inc. as of December 31, 2007, is a true copy of the original report on file with this Bureau.

IN WITNESS WHEREOF, I have hereunto set my hand
and affixed to the original the seal of the Bureau at the City
of Richmond, Virginia this 21st day of January, 2009

Alfred W. Gross
Commissioner of Insurance

(SEAL)

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Richmond, Virginia
October 30, 2008

Honorable Alfred W. Gross
Commissioner of Insurance
Richmond, Virginia

Dear Sir:

Pursuant to your instructions and by authority of Section 38.2-1317 of the Code of Virginia, an examination of the affairs and financial condition of

UNITED LEGAL BENEFITS OF VIRGINIA, INC.

Lutherville, Maryland

hereinafter referred to as the Corporation, has been completed. The report thereon is submitted for your consideration.

DESCRIPTION

The Corporation was licensed in Virginia as a legal services plan pursuant to Chapter 44 of Title 38.2 of the Code of Virginia on June 1, 2001. The Corporation was last examined by representatives from the State Corporation Commission's Bureau of Insurance (the "Bureau") as of December 31, 2004. This examination covers the period from January 1, 2005 through December 31, 2007.

HISTORY

The Corporation was incorporated in the Commonwealth of Virginia on September 28, 1999. According to its Articles of Incorporation, the purpose for which the Corporation is organized is to perform all acts necessary in connection with the operation of a prepaid legal services business and transact any or all lawful business.

MANAGEMENT AND CONTROL

The bylaws of the Corporation provide that the management of the Corporation shall be vested in a Board of Directors ("Board") of at least three, but no more than eleven directors elected annually by the stockholders for a one-year term, or until a successor is elected and qualified. The Board shall choose a President, a Secretary and a Treasurer who shall serve as the executive officers of the Corporation. Additionally, the Board may elect a Chairman of the Board, one or more Vice Presidents, assistant officers and subordinate officers as it deems necessary. A person may hold more than one office, except for the offices of the President and the Vice President of the Corporation.

At December 31, 2007, the Board and officers were as follows:

Directors

Business Affiliations

William F. Bridgeforth

President
Royal Crown Cola Bottling Company
Winchester, Virginia

B. Douglas Goodell

President/Treasurer
United Legal Benefits of Virginia, Inc.
Lutherville, Maryland

John A. Karanik

Retired
Glen Falls, Virginia

Russell A. May

Director
United Legal Benefits, LLC
Lutherville, Maryland

Officers

B. Douglas Goodell

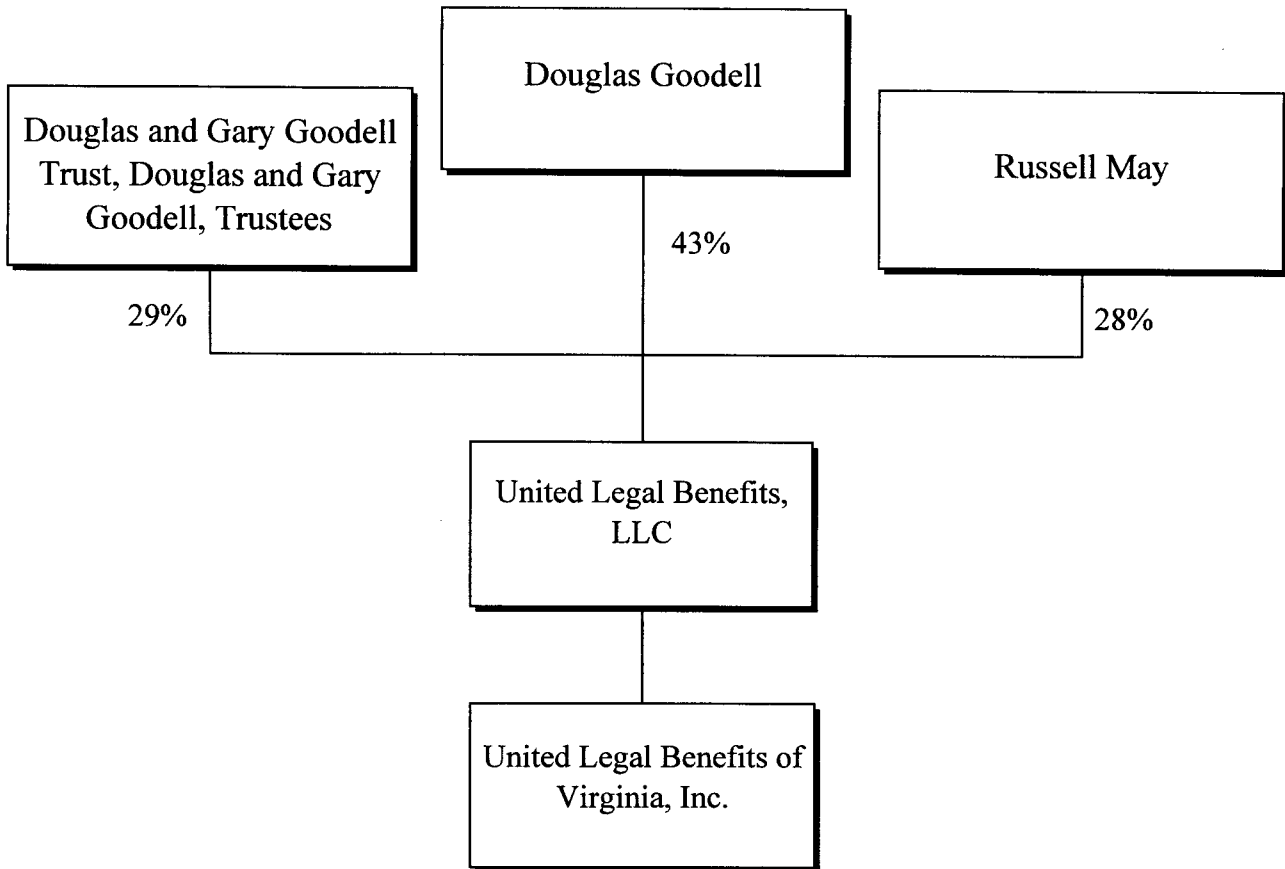
President/Treasurer

Russell A. May

Secretary

RELATED PARTIES

According to its Articles of Incorporation, the Corporation has the authority to issue 5,000 shares of common stock with a par value of \$1 per share. At December 31, 2007, there were 100 issued and outstanding shares, which were owned by United Legal Benefits, LLC ("United"). The following chart illustrates the relationship between the Corporation and its parent and affiliates:



TRANSACTIONS WITH AFFILIATES

Administrative Services Agreement

Effective January 14, 2004, the Corporation entered into an administrative services agreement with United to provide various services including, but not limited to, management, administration, claims, operations, accounting and personnel. The term of the agreement shall be continuous, and shall remain in force unless written notice of intent to cancel is given no later than 120 days prior to the effective date of such termination. In return for providing the services, the Corporation shall pay United no more than 40% of monthly revenues. Total administrative service fees paid to United for calendar year 2007 were \$14,550.

TERRITORY AND PLAN OF OPERATION

The Corporation is licensed to transact business in the entire Commonwealth of Virginia. Participation is offered to individuals, employees of a participating employer, or members of a participating group. Current efforts are directed at group sales in order to increase subscribers and contain production costs. In most instances, premiums are collected monthly through payroll deduction for the employee/employer groups. Other payment options include monthly, quarterly and annual advance premium remittances by the subscriber.

Each participating attorney/law firm receives 40% of the monthly premium for each subscriber who has selected that attorney/law firm as their plan legal service provider. As of December 31, 2007, the Corporation had retainer agreements in effect with 3 attorney/law firms and had enrolled 185 subscribers. Services provided under the contract include, but are not limited to, the following:

General Consultation Advice	Defense of Juveniles
Traffic Violations	Landlord-Tenant Matters
Civil Actions	Real Estate Transactions
Family Law	Preparation of Wills
Uncontested Divorces	Credit Protection
Misdemeanor Criminal Violations	Consumer/Seller Issues
Civil Administration Proceedings	Preventive Law

Covered Services are limited to those of an attorney and exclude costs incidental to legal matters such as court fees, fees for service of summons, fines, penalties or damages. Other exclusions include expenses incurred by the attorney such as: travel expenses and long distance telephone calls.

CONFLICT OF INTEREST

The Corporation has adopted a conflict of interest policy. The objective of this policy is to ensure that each director, officer, and employee faithfully serves the Corporation and refrains from doing anything which is adverse or prejudicial to the Corporation's interest. To ensure compliance with the policy, the Corporation has established procedures which require directors, officers and members of a committee with Board delegated powers to sign a conflict of interest disclosure form annually.

FIDELITY BOND AND OTHER INSURANCE

The Corporation had fidelity bond coverage in effect at December 31, 2007, with a \$15,000 limit of liability subject to a \$0 deductible. Additionally, the Corporation had comprehensive business liability, workers' compensation and property coverage in force at December 31, 2007.

GROWTH OF THE CORPORATION

The following data represents the growth of the Corporation, at year-end, from its inception in 2001 to December 31, 2007. The data is compiled from the Corporation's filed Annual Statements, previous examination reports, and the current examination report.

<u>Year</u>	Total Admitted <u>Assets</u>	Total <u>Liabilities</u>	Capital and <u>Surplus</u>
2001	\$34,175	\$932	\$33,243
2002	35,416	0	35,416
2003	36,439	0	36,439
2004	36,365	1,601	34,764
2005	38,106	1,555	36,551
2006	38,721	954	37,767
2007	38,942	1,849	37,093

<u>Year</u>	Total <u>Revenue</u>	Net Investment <u>Gain</u>	Legal <u>Expenses</u>	Administrative <u>Expenses</u>	Pre-Tax Income <u>(Loss)</u>
2001	\$10,590	\$230	\$3,449	\$6,499	\$872
2002	23,817	239	9,861	15,825	(1,630)
2003	29,015	120	11,588	16,524	1,023
2004	30,233	179	11,956	20,001	(1,545)
2005	26,361	159	10,090	15,698	732
2006	31,890	180	11,245	19,609	1,216
2007	33,343	106	13,790	20,333	(674)

The Corporation's enrollment data at year-end is illustrated as follows:

<u>Year</u>	<u>Number of Members</u>
2001	106
2002	137
2003	167
2004	170
2005	142
2006	175
2007	185

CAPITAL AND SURPLUS

At December 31, 2007, the Corporation's capital and surplus, as restated by the Examiners subsequent to the examination was \$37,093. Capital and surplus is comprised of common capital stock, gross paid in and contributed surplus and unassigned funds. The Corporation had 100 shares of \$1 par value common stock issued and outstanding, with gross paid in and contributed surplus of \$50,400 and unassigned funds of (\$13,407). The Bureau requires the Corporation to maintain capital and surplus of at least \$35,000.

SCOPE

This is a full scope financial condition examination initiated and conducted under the provisions of Article 4, Chapter 13 of Title 38.2 of the Code of Virginia. The examination covers the period from January 1, 2005 through December 31, 2007. Assets were verified and liabilities were established at December 31, 2007. A review of income and disbursements for the period was made to the extent deemed necessary.

The items comprising the Balance Sheet had a medium or low risk assessment as determined from the National Association of Insurance Commissioners Examiners Handbook. Analytical review procedures were applied for non-material items.

In addition, the following items were reviewed, several of which are discussed separately under their respective captions in this report.

- History
- Management and Control
- Related Parties
- Transactions with Affiliates
- Territory and Plan of Operation
- Conflict of Interest
- Fidelity Bond and Other Insurance
- Growth of the Corporation
- Capital and Surplus
- Accounts and Records
- Financial Statements

FINANCIAL STATEMENTS

There follows a statement of financial condition of the Corporation at December 31, 2007, a statement of revenue and expenses for the year ended December 31, 2007, a reconciliation of capital and surplus for the period under review, a statement of cash flow for the year ending December 31, 2007 and a statement of Examiners' changes in capital and surplus at December 31, 2007. The financial statements are presented in accordance with Statutory Accounting Principles.

ASSETS

	<u>Assets</u>	Nonadmitted <u>Assets</u>	Net Admitted <u>Assets</u>
Cash and short-term investments	<u>\$38,467</u>	<u> </u>	<u>\$38,467</u>
Subtotals, cash and invested assets	\$38,467	\$0	\$38,467
Uncollected premiums and agents' balances in the course of collection	<u>475</u>	<u>0</u>	<u>475</u>
Total assets	<u><u>\$38,942</u></u>	<u><u>\$0</u></u>	<u><u>\$38,942</u></u>

LIABILITIES, CAPITAL AND SURPLUS

Premiums received in advance	\$1,820
General expenses due or accrued	<u>29</u>
Total liabilities	<u>\$1,849</u>
Common capital stock	\$100
Gross paid in and contributed surplus	50,400
Unassigned funds (surplus)	<u>(13,407)</u>
Total capital and surplus	<u>\$37,093</u>
Total liabilities, capital and surplus	<u><u>\$38,942</u></u>

STATEMENT OF REVENUE AND EXPENSES

Net premium income	<u>\$33,343</u>
Total revenues	<u>\$33,343</u>
Legal benefits	\$13,790
General administrative expenses	<u>20,333</u>
Total underwriting deductions	<u>\$34,123</u>
Net underwriting loss	<u>(\$780)</u>
Net investment income earned	<u>\$106</u>
Net investment gains	<u>\$106</u>
Net loss before federal income taxes	(\$674)
Federal income taxes incurred	<u>0</u>
Net loss	<u><u>(\$674)</u></u>

RECONCILIATION OF CAPITAL AND SURPLUS

	<u>2005</u>	<u>2006</u>	<u>2007</u>
Capital and surplus prior reporting year	* <u>\$34,764</u>	<u>\$36,551</u>	<u>\$37,767</u>
GAINS AND LOSSES TO CAPITAL AND SURPLUS			
Adjustments from previous examination changes	1,055		
Net income or (loss)	<u>732</u>	<u>1,216</u>	<u>(674)</u>
Net change in capital and surplus	<u>\$1,787</u>	<u>\$1,216</u>	<u>(\$674)</u>
Capital and surplus end of reporting year	<u><u>\$36,551</u></u>	<u><u>\$37,767</u></u>	<u><u>\$37,093</u></u>

* Adjusted Capital and Surplus from previous examination

CASH FLOW**Cash from Operations**

Premiums collected net of reinsurance	\$36,098
Net investment income	<u>106</u>
Total	<u>\$36,204</u>
Benefit and loss related payments	\$13,790
Commissions, expenses paid and aggregate write-ins for deductions	<u>20,305</u>
Total	<u>\$34,095</u>
Net cash from operations	<u>\$2,109</u>

RECONCILIATION OF CASH AND SHORT-TERM INVESTMENTS

Net change in cash and short-term investments	\$2,109
Cash and short-term investments:	
Beginning of the year	<u>36,358</u>
End of the year	<u><u>\$38,467</u></u>

EXAMINERS' CHANGES IN CAPITAL AND SURPLUS

	<u>Corporation</u>	<u>Examiners</u>	<u>Increase (Decrease)</u>
<u>Assets:</u>			
Uncollected premiums and agents' balances in the course of collection	\$2,092	\$475	(\$1,617)
<u>Liabilities:</u>			
Premiums received in advance	\$1,343	\$1,820	(\$477)
General expenses due and accrued	0	29	<u>(29)</u>
Examiners' decrease in capital and surplus			<u>(\$2,123)</u>
Total capital and surplus per Corporation			\$39,216
Total capital and surplus per Examiners			<u>37,093</u>
Net decrease in capital and surplus			<u>(\$2,123)</u>

RECOMMENDATIONS FOR CORRECTIVE ACTION

Accounts and Records

1. **Uncollected premiums and agents' balances in the course or collection** **\$475**

The above asset is \$1,617 less than the amount reported by the Corporation in its 2007 Annual Statement. The decrease is a result of:

- a. Excluding \$1,415 in January 2008 premiums that the Corporation included in this asset at December 31, 2007. The premium invoices for January 1, 2008 coverage were mailed in December 2007. However, the event giving rise to the Corporation's right to future economic benefit had not occurred at December 31, 2007; therefore, these premiums have been excluded by the Examiners.
- b. Excluding \$202 that could not be substantiated by the Corporation as a receivable and thus was deemed not to be an asset by the Examiners. SSAP No. 4 – Assets and Nonadmitted Assets, states that an asset shall be defined as probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events.

It is recommended that only those premiums for which the coverage period has occurred as of the reporting date be reported as Uncollected premiums and agents balances in the course of collection by the Corporation in future filings to the Bureau. Additionally, the Corporation should only report those balances that it can substantiate as an asset in future filings to the Bureau.

2. **Premiums received in advance** **\$1,820**

The above liability is \$477 more than the amount reported by the Corporation in its 2007 annual statement. The increase is a result of the Examiner's review of premiums received in December 2007 for coverage during the period January 1, 2008 and after. It is recommended that the Corporation report all advance premiums as a liability in future statements filed with the Bureau.

3. General expenses due and accrued \$29

The above liability is \$29 more than the amount reported by the Corporation in its 2007 Annual Statement. The increase is based on broker commissions paid in January 2008 that were earned during the fourth quarter 2007 but not accrued as a liability by the Corporation at year-end. It is recommended that the Corporation report all general expenses due but not yet paid at year-end as liabilities in future statements filed with the Bureau.

CONCLUSION

The courteous cooperation extended by the Corporation's officers and employees during the course of the examination is gratefully acknowledged.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Cliff Lewis".

Cliff Lewis, CFE
Senior Insurance Examiner



09 JAN 14 AM 9:43

January 12, 2009

Mr. David Smith, CPE, CPA, CPCU
Chief Examiner
Commonwealth of Virginia
P.O. Box 1157
Richmond, Virginia 23218

Re: United Legal Benefits of Virginia, Inc.
Examination Report as of December 31, 2007

Dear Mr. Smith:

This is in response to your letter dated December 23, 2008.

Please find attached the company's responses to the recommendation for corrective action.

If you have any questions or require additional information, please let us know. Thank you.

Very truly yours,

A handwritten signature in black ink that reads "B. Douglas Goodell".

B. Douglas Goodell
President
United Legal Benefits of Virginia, Inc.

BDG/pa

Enclosure

United Legal Benefits

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Email: info@unitedlegalbenefits.com
www.unitedlegalbenefits.com

United Legal Benefits of Virginia, Inc.

Response to Recommendations for Corrective Action

Accounts and Records

1. The Corporation has modified its accounting practices (journal entries) to accurately report uncollected premiums as being only those premiums for which the covered period has occurred as of the reporting date.
2. The Corporation has modified its accounting practices (journal entries) to ensure that all premiums received in advance of their coverage date will be reported as a liability in future statements filed with the Bureau.
3. The Corporation has modifies its accounting practices (journal entries) to ensure that all general expenses due but not yet paid at year-end will be reported as liabilities.